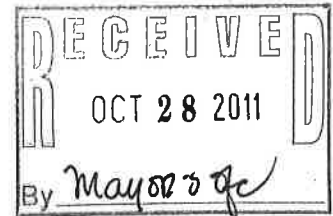




STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY
OFFICE OF STATE AND LOCAL FINANCE
SUITE 1600 JAMES K. POLK STATE OFFICE BUILDING
NASHVILLE, TENNESSEE 37243-1402
PHONE (615) 401-7872
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October 26, 2011

Honorable Jo Ann Graves, Mayor
City of Gallatin
132 West Main Street
Gallatin, TN 37066

Dear Mayor Graves:

This letter acknowledges receipt of a request on October 7, 2011, to review a plan of refunding (the "Plan") for the proposed issuance of \$3,400,000 Water and Sewer Revenue Refunding Bonds, Series 2011 (the "2011 Bonds"). The Series 2011 Bonds will advance refund \$3,190,000 Water and Sewer Revenue and Tax Refunding and Improvement Bonds, Series 2003 (the "2003 Bonds"). The 2011 Bonds will be included as part of an issue of an amount not to exceed \$10,000,000 water and sewer revenue bonds that will finance construction projects associated with the water and sewer system as well as refund the 2003 Bonds.

Tennessee Code Annotated §9-21-1001(a) permits revenue refunding bonds to be issued to refund a debt payable with a combination of revenues from a municipal utility and taxes. *Tennessee Code Annotated* §9-21-1001(d) permits other bonds to be issued jointly with revenue refunding bonds.

Pursuant to the provisions of Title 9, Chapter 21, *Tennessee Code Annotated*, a City submits a plan of refunding to our Office for review prior to the adoption of a resolution by the governing body of a local government authorizing the issuance of revenue refunding bonds. The assumptions presented in the plan of refunding are the assertions of the City and may not reflect current market conditions, market conditions at the time of sale, or the financial condition of the City.

Compliance Requirements

Local Government Public Obligations Law

Tennessee Code Annotated §9-21-1001(b) authorizes revenue refunding bonds to be issued only for one (1) or more of the following purposes:

- cost savings to the public;
- removal or modification of one (1) or more restrictive covenants; or

- payment or discharge of all or any part of an issue or series of outstanding obligations, including any interest thereon, in arrears or to become due and for the payment of which sufficient funds are not available.

The Plan included draft Supplemental Resolution No. 2 to the Master Resolution Water and Sewer System Revenue Obligations adopted on July 15, 2008. In Section 1.03 of draft Supplemental Resolution No. 2, the City Council will find that the issuance of the 2011 bonds will result in a reduction in debt service payable by the City thus providing a cost savings to the public. Based on the draft resolution the purpose of this refunding is for cost savings to the public. The Plan reflects a net present value savings of \$260,163 or 8.16% of the \$3,190,000 refunded principal. The present value savings portray the current value of the debt reduction over the term of the refunding bonds. The refunding as proposed produces a cost savings to the public.

The City has not yet adopted a debt management policy. The Plan stated that City officials believe any refunding that produces present value savings above 3% should be considered. The City stated in its Plan, its intention to adopt a debt management policy by December 31, 2011.

The City stated in its plan that the 2011 Bonds do not extend the refunded bonds past their original final maturity date. The final maturity of the 2003 Bonds is January 1, 2024. The final maturity of the 2011 Bonds is July 1, 2023. The refunding as proposed does not extend the maturity of the refunded bonds past their initial maturity date.

Utility Management Review Board and Financial Distress

Tennessee Code Annotated Section §68-221-1010 requires the Comptroller of the Treasury to file the audited financial report of any municipal water system and wastewater facility that has a deficit total net assets in any one (1) year, has a negative change in net assets for two (2) consecutive years, or is currently in default on any of its debt instruments to the Water Wastewater Financing Board (WWFB). The WWFB can determine if the district is likely to remain in any of the aforementioned conditions and order the district to adopt and maintain rate structures necessary for adequate funding of the utility, liquidate a net asset deficit, and cure a default on any indebtedness.

The City is not currently under the authority of the WWFB. In fiscal year 2010, the system had a negative change in net assets of \$543,074 and a prior period adjustment further reducing net assets by an additional \$27,004,557 from \$69,278,540 to \$41,730,909. A second year of negative change in net assets will cause the City's water and sewer system to be referred to the WWFB.

Financial Analysis

The City's water and sewer system operating income for fiscal year 2010 was \$1,105,161. The change in net assets from non-operating activities was -\$1,381,588 consisting primarily of a debt service interest payment of \$1,444,725. Before capital contributions, the water and sewer system's change in net assets was -\$276,426. Capital contributions are primarily noncash items included in the change in net assets. The change in net assets including capital contributions was -\$543,074. Operating income should at least equal a utility's debt service (principal and interest payment). Operating income for fiscal year 2010 was less than the water and sewer system's debt service payment of \$2,646,001. Debt service payments during fiscal year 2010 exceeded operating income by \$1,540,840. If the water and

and sewer system continues to have insufficient revenues to cover all operating expenses and debt service, it could experience financial difficulties in the future.

Report on Debt Obligation

We are enclosing State Form CT-0253, Report on Debt Obligation. Pursuant to Tennessee Code Annotated Title 9, Chapter 21, Section 151, this form is to be completed and filed with this Office within 45 days after the issuance of the refunding bonds.

Sincerely,

A handwritten signature in cursive script that reads "Mary-Margaret Collier".

Mary-Margaret Collier
Director of the Office of State & Local Finance

Cc: Mr. Dennis Dycus, Director of Municipal Audit, COT
Ms. Rachel Nichols, Finance Director, City of Gallatin
Mr. Joe Thompson, Legal, City of Gallatin
Ms. Julianne Graham, Wiley Bros.
Mr. Jeff Oldham, Bass, Berry & Sims

Enclosures (2): Report of the Director of the Office of State & Local Finance
State Form CT-0253, Report on Debt Obligation.

REPORT OF THE DIRECTOR OF THE OFFICE OF STATE AND LOCAL FINANCE

CONCERNING THE PROPOSED ISSUANCE OF Water and Sewer Revenue Refunding Bonds, Series 2011 City of Gallatin, Tennessee

The City of Gallatin (the "City") submitted a plan of refunding (the "Plan"), dated October 4, 2011, as required by *Tennessee Code Annotated* Section 9-21-1003 regarding the proposed issuance of \$3,400,000 General Obligation Refunding Bonds, Series 2011 (the "2011 Bonds"). The 2011 Bonds will advance refund \$3,190,000 of the Water and Sewer Revenue and Tax Bonds, Series 2003 (the "2003 Bonds"). The 2003 Bonds were issued to finance water and sewer system improvements. The plan of refunding (the "Plan"), was prepared with the assistance of the City's Underwriter, Wiley Brothers. The City Plan illustrates the negotiated sale of the Refunding Bonds at par. The 2011 Bonds may be structured in a different manner than proposed being priced at a premium and/or with a different principal payment structure.

Financial Analysis

The City's water and sewer system operating income for fiscal year 2010 was \$1,105,161. The change in net assets from non-operating activities was -\$1,381,588 consisting primarily of a debt service interest payment of \$1,444,725. Before capital contributions, the water and sewer system's change in net assets was -\$276,426. Capital contributions are primarily noncash items included in the change in net assets. The change in net assets including capital contributions was -\$543,074. Revenue should cover a utility's operating expenses and debt service (principal and interest payment). Operating income for fiscal year 2010 was less than the water and sewer system's debt service payment of \$2,646,001. Debt service payments during fiscal year 2010 exceeded operating income by \$1,540,840. If the water and sewer system continues to have insufficient revenues to cover all operating expenses and debt service, it could experience financial difficulties in the future.

Refunding Analysis

The City does not have an adopted debt management policy; but stated a refunding must have present value savings in excess of 3% for consideration. The refunding plan reflects a net present value savings of \$260,163 or 8.16% of the \$3,190,000 refunded principal. The savings are achieved by reducing the current average coupon on the Series 2003 bonds from 4.149% to an average coupon of 2.080% for the refunding bonds, assuming the bonds are issued at par (See page 1 and 3 of the Plan – Schedules Related to the Refinancing Portion of the Transaction Only).

The 2011 Bonds reduce the life of the refunded Bonds by six months (See page 5 and 6 of the Plan – Schedules Related to the Refinancing Portion of the Transaction Only).

A sources and uses schedule can be found on page two of the Plan. Total cost of issuance is \$57,750 or \$16.60 per \$1,000 of par amount for the Series 2011 Bonds.

2011 Bonds	
Source and Uses	
Source of Funds	
Par Amount of Bonds	\$ 3,400,000.00
Debt Service Fund Contribution	43,362.92
Total Sources	\$ 3,443,362.92
Uses of Funds	
Refunding Escrow Deposit	\$ 3,382,059.30
Additional Proceeds	3,553.62
Cost: Cost of Issuance	57,750.00
Total Uses	\$ 3,443,362.92

This report of the Office of State and Local Finance does not constitute approval or disapproval by the Office for the proposed plan or a determination that a refunding is advantageous or necessary nor that any of the Refunded obligations should be called for redemption on the first or any subsequent available redemption date or remain Refunded until their respective dates of maturity. This report is based on information as presented in the plan by the City. The information and assumptions included in the City's plan may not reflect either current market conditions or market conditions at the time of sale or the current or future financial condition of the City.

A handwritten signature in black ink that reads "Mary-Margaret Collier". The script is cursive and fluid, with the first name "Mary" and last name "Collier" being more prominent than the middle name "Margaret".

Mary-Margaret Collier
Director of the Office of State and Local Finance
Date: October 26, 2011